

PUBLIC HEARING, INVITED TESTIMONY

HB 2007, HJR 37

TAPES 107, 108 A/B

HOUSE REVENUE COMMITTEE

APRIL 9, 1997 8:30 AM HEARING ROOM A STATE CAPITOL BUILDING

MEMBERS PRESENT: Rep. Tom Brian, Chair

Rep. Lee Beyer, Vice-Chair (Arrived 9:00 a.m.)

Rep. Tony Corcoran

Rep. Randall Edwards

Rep. Leslie Lewis (Arrived 9:00 a.m.)

Rep. Anitra Rasmussen (Arrived 9:00 a.m.)

Rep. Lane Shetterly

Rep. Mark Simmons (Arrived 8:53 a.m.)

Rep. Ken Strobeck

WITNESSES PRESENT: Rep. Lynn Lundquist, House Speaker

Jim Hill, State Treasurer

Rep. Patti Milne

Rep. Randall Edwards

STAFF PRESENT: Ed Waters, Economist

Barbara Guardino, Committee Assistant

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PUBLIC HEARING - HB 2007, HJR 37

- 007 Chair Brian Called meeting to order at 8:50 a.m.
- 022 Speaker
Lynn
Lundquist Refer to written testimony (EXHIBIT A). Rainy Day Fund earmarked for education. Rainy Day Fund will be funded with future kicker money. Present kicker money is not involved in this bill. Oregon is one of only five states that does not have a rainy day fund, does not plan for future.
- 051 Speaker
Lundquist Rainy Day Fund prevents run-away government. Plan does not allow 2 % to be used by government; very first dollar over projection goes into Rainy Day Fund, not back to the people.
- 070 Speaker
Lundquist Rainy Day Fund has a positive impact on state bonding and credit rating. Protects Oregon education from future economic down-turn. Proposes capping fund at 7 % of general fund. Once that level is met, additional monies go back to taxpayers.
- 088 Speaker
Lundquist Proposed a conceptual amendment: Cap the lottery disbursements at current biennium figure (approximately \$600 million). This weans state from its addiction to gambling. This money will go into building the rainy day fund. Proposed putting lottery funds into education endowment fund. When lottery is capped, this stabilizes the remaining lottery receipts. Rainy Day Fund can only be used when downturn in economy.
- 141 Speaker
Lundquist Makes no sense that when there is an economic downturn, state adds surcharge tax. This fund will preclude this from happening. Rainy Day Fund will be put into the Oregon Constitution. He prefers not to, although this will prevent future legislators from changing it.
- 196 Rep. Asked members to consider future and stability of state. Future of Oregon is tied to education.
- 196 Rep. Asked, why change the kicker law? Is there something wrong with it?

- Corcoran
 203 Speaker
 Lundquist Yes, there is. Kicker law allows first 2 % to go into government growth. This is not necessary. Present kicker law does not allow lawmakers to provide for future education. Every biennium legislature has to decide what to do with kicker.
 This plan returns windfall monies back to taxpayers. His plan does this too.
- 221 Rep.
 Corcoran Asked, at a time when education is in need, why are legislators contemplating giving 31 % tax cut to corporations. If Lundquist wants to change kicker, why not this biennium?
- 238 Speaker
 Lundquist It would be retroactive, and he does not like this. Feels strongly that lawmakers cannot take windfall monies and make expenditures that create future obligations. His kicker proposal gives ability to function during down-turn conditions.
- 257 Rep.
 Rasmussen Expressed concern with rising classroom sizes. Asked if there is a solution to deal with issue now rather than in future.
- 275 Speaker
 Lundquist This bill is not meant to answer current problems.
- 298 Chair Brian Kicker will continue to be debated throughout session. Focus of Lundquist's bill is about the future.
- 311 Rep.
 Shetterly Asked, after education funding is restructured, is it advisable to lock it into the Constitution?
- 336 Speaker
 Lundquist Difficult to plan for the future. If downturn in economy and this fund is there, that frees up other money to fund human resources etc..
- 387 Rep.
 Edwards Asked, once fund is filled, do lawmakers return to current kicker law?
 Believes 2 % is two conservative. Would prefer 3 %.
- 399 Speaker
 Lundquist Under his proposal, 2 % kicker would be eliminated.

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- 039 Rep. Lewis Regarding economic factors in statutory portion of laws, was any thought given to putting economic factors in the Constitution portion so taxpayers would know future legislators wouldn't figure out creative ways to define an economic downturn and take the reserve fund money?
- 047 Speaker
 Lundquist Would define economic development in constitution. Important lawmakers know what this money will be used for.
- 090 Rep.
 Corcoran Kicker created in early 1980s with excess revenues due to inflation. Nobody could have anticipated 1990s tax revolt and prison initiatives. This kicker bill does not address excess demands that nobody anticipates. Bill does not take these costs into account.
 Asked, what does Lundquist estimate is the new cost incurred by these unanticipated

- costs.
- 100 Speaker
Lundquist Lawmakers anticipated over \$1 billion expenditure per biennium before these extra costs.
- 123 Rep.
Simmons Noted, earlier legislatures were politically naïve to leave the unbearable property tax system in place as long as they did. This body had the opportunity to address that every two years and did nothing.
- 128 Speaker
Lundquist Return of kicker is not a tax cut, it is a rebate of over-payment. Original intent was to control growth in government. Asked, will Lundquist's proposal continue to do this? Believes his bill does better job at this. Regarding property taxes in 1995 session, legislators came within one vote.
- 153 Vice Chair
Beyer Likes Lundquist's concept. Asked, after 7 % level is hit, wouldn't it be wiser to put money toward immediate education needs rather than a refund?
- 202 Speaker
Lundquist Expressed frustration in not being able to properly fund schools. Sees present kicker as a way to build up Oregon schools today. This Rainy Day Fund is not designed to deal with the current crisis. If lawmakers want to put money into education immediately, they wouldn't put anything aside. Problem with kicker is, lots of Oregonians want their money back. This won't solve the education crisis, but building a reserve is fiscally prudent. This is not the education answer.
- 251 Jim Hill Refer to testimony (EXHIBIT B) verbatim "Testimony in Support of HB 2007 and HJR 37". Believes Lundquist bill would have a positive impact on state's financial future. Discussed importance of preserving state's bond rating.
- 302 Rep.
Edwards The higher the state's credit rating, the more cost effective it is to finance needed capital projects. Reserve fund will give Oregon stability to protect against future economic hardships. Asked whether credit rating agencies have commented to Hill about the state's lack of a rainy day fund.
- 310 Hill Yes. They see M47 and the kicker as a contradiction. Many states have a rainy day fund, gives rating agencies another proof that Oregon is being responsible.
- Rep.
Edwards Lawmakers need to be flexible in response to unanticipated financial obligations.
- 355 Hill Initiative process is of considerable concern. Is pleased that reserve fund and initiative process are both being addressed by this legislature. However, issue of flexibility is not his job.
- 405 Rep.
Corcoran Asked Hill to elaborate on his discussions with credit rating agents concerning a contradiction (M47/kicker). What do bond people think of Oregon's tax situation?

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Contradiction is that kicker is automatic and creates situation where money is taken

away from local governments and returned to them.

028 Hill Markets generally dislike uncertainty. This is where bond rate has concerns. If Oregon passes reserve fund, it will increase bond rating. Economy is strong. Management of state is exceptional. Bond raters' main concern is the initiative process.

067 Rep. Corcoran Would bond rating agents have a preference in how money should be spent (children, prisons)?

Generally they have a hands-off policy. They do consider education to be important. Believes education is the equalizer in this society. One reason businesses are moving here is the educated work force.

073 Hill

103 Hill Bond rating was upgraded from AA- to AA rating. Passage of M5 lowered rating to AA-.

111 Chair Brian

Would it make a difference if the rainy day fund was constitutional or statutory?

They generally like flexibility, but permanent reserve fund is a positive.

117 Hill

Credit rating agents are concerned that lottery is Oregon's No. 2 source of funding. They view lotteries as basically unstable.

148 Rep. Edwards

Contacted rating agency and asked if made difference whether in Constitution or not. Answer was "no."

INVITED TESTIMONY HB 3113

Her interest in idea of "investment fund" (rainy day fund) is from arguments how budget is balanced. Lawmakers do not think about future. They do not consider how economic terms change from session to session. Biggest concern is, right now Oregon is in boom economy. What happens when economy turns to normal? What happens when there is less revenue, or an emergency, or a natural catastrophe?

Rep.

171 Patti Milne

Additionally, in response to some earlier conversation about education, suggested keep education separate from rainy day fund. Looking at period of 2-3 years before either fund would accumulate to the point of being accessed. Hopes legislature will address education situation before that. Interested in separate discussion on one-time educational needs (capital construction, repairs).

Differences between her proposal and Speaker's:

223 Rep. Milne

HB 3113 creates investment fund. Also changes budget process. It limits budget to 97 % of forecast revenues. The remainder is dedicated to the emergency board. Amounts in excess of 100 % but less than 103 % of forecast revenues would be dedicated to investment fund. Any amount over that would be a kicker.

Major factor : This fund would grow more quickly than Speaker's fund.

HB 3113 would leave use to future legislatures. Uncomfortable putting it in Constitution.

250 Rep. Milne Legislatures need ability to respond to emergencies. Will build "fire walls" around it so money won't be spent frivolously.

280 Rep. Milne Both bills would improve bond rating. Flexibility for future uses is important. HB 3113 directs funds to General Fund, creates larger margin of error that could help future legislatures.

304 Rep. Edwards Summarized: Prudently respond to future needs, but give future legislatures flexibility. State is at point when ending balances are run down to almost 0 at end of each session. Different from speaker's, will be funded after 3 %. This would say, 3-6 % would stay for specific uses; above 6 % would go back to the people. Concept is to put money aside. As with individuals, it's hard to put money away. Expressed concern with inadequate school funding. HB 3113 not offering constitutional amendment. Suggests lawmakers address issue of what happens when major shift occurs such as M5 and M47. Agreed with state treasurer that uncertainty creates financial instability.

408 Chair Brian Summed up HB 3113:

- 1) Statutory
- 2) Trigger point on kicker moves to 103 % instead of 102 %
- 3) Refunds to taxpayers would be amount over 103 %
- 4) Difference between 97 % and 103 is a reserve fund
- 5) Access is triggered on same reference economic recession indicators
- 6) Once threshold is reached, it requires a simple majority

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032 Rep. Milne Drafters want to make sure there are legitimate needs before this money would be accessed. She is open to discussion on percentage.

042 Rep. Edwards Without knowing what future holds, there should be flexibility on what is needed.

049 Rep. Milne Prefers money be available for whatever legislature determines. Education might enter into this, but another time prisons or flooding. Clarified, 1997-98 budget could only use 97 % of money coming in, so 3 % would be unavailable.

058 Vice Chair Beyer 3 - 6 % would be available for unanticipated expenses. If at end of year, state didn't need to use this money, it would go into a reserve account.

When first discussing this idea, (97 %) her concern was in regard to funding the emergency board fund. Many times lawmakers are not properly addressing needs

- 078 Rep. Milne during session, and must run to emergency board. There is concern too much money is being made available. Wants to tighten out how money is accessed through Emergency Board.
- 091 Rep. Shetterly Asked, what happens if collections exceed 100 %?
- 105 Rep. Milne Money above 100 % is considered investment fund.
- 110 Rep. Edwards Investment fund limits budget to 97 % of forecast revenues. The amount over 97 % but less than 100 % of projected revenues is dedicated to unanticipated, unforeseen expenses (ending balance). Amounts in excess of 100 % but less than 103 % of forecast revenues are dedicated to investment fund (rainy day fund). Amounts over 103 %, (7%) would be returned to the voters.
- 124 Rep. Shetterly Referred to HB 3113, page 2 lines 11-13 - "budget plan shall be based upon 97 % of total anticipated general fund income"; and page 3 line 30 - "if the revenues received from general fund revenue sources exceed 3 % ..."
- 132 Rep. Milne There is a drafting error, must be corrected.
- 153 Rep. Milne Investment fund is untouchable except in case of emergency. Fund will be built, then interest will be accessible only under certain emergency conditions. This is not a slush fund of extra money to be arbitrarily added to budget.
- 170 Rep. Edwards Concept is to set up fund that cannot be tapped unless certain things happen (i.e. economic downturn).
- 174 Rep. Corcoran Noted, there is a \$200 million difference between governor and Republican leadership. This budget could close 18 nursing homes, drop Head Start, increase classroom sizes. How would he make an additional 3 % cut if this bill were law right now?
- 194 Rep. Edwards We do need to build additional flexibility. Last budget was not anticipated. Suddenly, huge liability. Committee needs to consider amending the trigger for education funding. Need to find more money.
- 224 Rep. Lewis M47 would constitute a crisis in his bill. Economic downturn is not necessarily the only time to use fund.
- Rep. Questioned whether legislators ever get the taxpayers' messages. Didn't get message about taxes and ended up with M47. Every legislature can declare an emergency and the money would be tapped every time. Lawmakers spend every dollar they are given. That's why it has to be a Constitutional Amendment. If just put in statute, legislature will spend it.
- Rep. Hesitates to tamper with Constitution. Believes lawmakers can put parameters into statutes to require additional discussion on spending. Legislators in 1997 cannot predetermine what future legislatures might be looking at. \$9 billion is a great deal of

242 Milne money when taxpayers are wondering where more might come from. Legislators must plan for future and control growth of government.

276 Chair
Brian Committee should learn more about what economic indicators in both measures mean.

300 Chair
Brian Adjourned meeting at 10:28 a.m.

Submitted by, Reviewed by,

Barbara Guardino Kim James

Committee Assistant Revenue Office Manager

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EXHIBIT SUMMARY:

- A. HB 2007 and HJR 37, Lundquist, Testimony: Lynn Lundquist, Speaker of the House, 3 pp.
- B. HB 2007 and HJR 37, Hill, Testimony in Support of HB 2007 & HB 37 by Jim Hill, 1 p.
- C. HB 2007, Waters, Fiscal Impact Statement, 1 p.
- D. HB 2007, Waters, Reserve Fund, 4 pp.
- E. HB 2007 and HJR 37, Carlson, Testimony on HJR 37 and HB 2007 By Gary M. Carlson, 2 pp.